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The Spotlight

The Spotlight is a regular Q & A feature that showcases our people, their expertise, and trending topics that are on top of our clients' minds directly from the voices of our business leaders.

Katrina Gerenz, Associate Partner, Regional and Community Banking

Katrina Gerenz is an associate partner within McLagan's banking consulting practice, serving as an advisor to boards of directors and executives on director, executive, and staff compensation. With over 20 years of experience, Katrina designs compensation programs that reflect each client's strategic objectives, pay philosophy, and culture. She partners with banks and credit unions to provide insights on industry trends and advises firms on incentive design, proxy disclosure, as well as regulatory compliance and risk assessment.

Questions and Answers

What practices can public firms follow to best avoid a negative say-on-pay vote?

Know your fact pattern heading into the next proxy season. There are many tools you can use in the summer and fall to estimate your scores and address concerns well in advance. It's also important to communicate with your investors and know what top shareholders think of your pay program. Proxy advisory firms continue to see pay-for-performance disconnects as the key driver of "against" recommendations and votes. Top red flag areas include: lack of rigor/disclosure of performance goals and targets, problematic pay practices (e.g., excessive termination or change-in-control severance payments), poor disclosure in the proxy, unreasonable pay levels, and lack of responsiveness to prior year concerns.

How should firms be approaching new board gender diversity requirements?

Companies should accelerate the addition of women directors as pressure from investors, proxy advisors, and new regulations in select states continues to grow. Boards must also look beyond the traditional director profile (non-CEOs, first time board members, experience below the executive level, etc.). One of the main challenges regarding broader board diversity is the low turnover and long tenure of current members. To achieve the right balance, boards should set clear expectations about length of service, performance expectations, and skill sets.

If you could describe the current state of executive compensation in three words, what would they be?

Competitive, evolving, performance-focused.

What key governance changes should firms based in the U.S. be currently addressing?

While there are many areas of focus, here are three priority items to have on your radar:

1. At the end of 2019, the SEC proposed rules to regulate proxy advisory firms (like ISS and Glass Lewis). The proposed rules would significantly impact proxy advisor reports and recommendations in two ways: disclosure of conflicts of interests and mandatory review, comment, and publication notice to issuers. We expect further details in 2020.
2. ISS will be reviewing and providing comments on director compensation for the first time in 2020. Conducting an independent review of your director compensation and adding proxy disclosure to your director pay philosophy and process will be key.
3. Companies are increasingly being evaluated by investors and ratings groups on sustainability, environmental, and social issues (e.g., climate change, human capital practices, gender pay gap, etc.) Firms can take simple steps to enhance disclosure of these topics and potentially enhance their scoring.

What's your top piece of advice for firms in 2020?

Be proactive and plan ahead. If you're looking to redesign incentive plans, start in the summer to give the compensation committee time to review market best practices and investor sentiment; discuss what is best for firm strategy, culture, and goals; and allow for fine tuning, plan documentation, and communication.

If you are interested in connecting with Katrina Gerenz, she can be reached at katrina.gerenz@mclagan.com.

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